

1 Linda Dakin-Grimm (SBN 119630)
2 Louis Anthony Pellegrino (*pro hac vice* in process)
3 Patricia J. Quilizapa (SBN 233745, application for
4 admission to this Court pending)
5 Aluyah I. Imoisili (SBN 245572, application for
6 admission to this Court in process)
7 MILBANK, TWEED, HADLEY & McCLOY LLP
8 601 S. Figueroa Street, 30th floor
9 Los Angeles, CA 90017
10 Telephone: (213) 892-4000
11 Fax: (213) 629-5063
12 Ldakin-grimm@milbank.com

13 Attorneys for Defendants PSM HOLDING CORP.,
14 a New York Corporation

15 UNITED STATES DISTRICT COURT
16 NORTHERN DISTRICT OF CALIFORNIA

17 JULIE C. CHAO, an individual, and in
18 her capacity as Trustee of CHAO
19 LIVING TRUST,

20 Plaintiff,

21 v.

22 PSM HOLDING CORP., a corporation,
23 and DOES 1-20, inclusive,

24 Defendants.

Case No.

DECLARATION OF PATRICIA J.
QUILIZAPA IN SUPPORT OF NOTICE
OF PENDENCY OF OTHER ACTION

[Filed Concurrently with Notice of Pendency
of Other Action; Notice of Removal; Civil
Cover Sheet; and Certificate of Interested
Parties]

Notice of Removal Filed: January 7, 2008

LA1 #6370084v1

NOTICE OF PENDENCY OF OTHER ACTION

DECLARATION OF PATRICIA J. QUILIZAPA

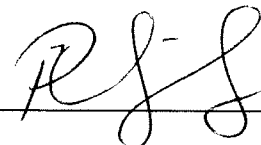
I, PATRICIA J. QUILIZAPA, declare as follows:

1. I am an attorney duly licensed to practice law in the State of California and have an application pending for admission in the United States District Court for the Northern District of California. I am an associate at the law firm of Milbank, Tweed, Hadley & McCloy LLP, counsel for Defendant PSM Holding Corp. I have personal knowledge of the facts set forth below and, if called as a witness, could and would testify competently thereto. I make this declaration in support of the Notice of Pendency of Other Action.

2. Attached hereto as Exhibit A is a true and correct copy of the complaint PSM Holding Corp. received via registered mail on December 10, 2007 (the "Complaint"). The Complaint shows a filing date of December 5, 2007 in the Superior Court of California for the County of San Mateo and was filed by Julie C. Chao against PSM Holding Corp.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 7th day of January, 2008, in Los Angeles, California.

A handwritten signature in dark ink, appearing to read 'P. J. Quilizapa', is written over a horizontal line.

Patricia J. Quilizapa

EXHIBIT A

FRIEDMAN DUMAS & SPRINGWATER LLP
CECILY A. DUMAS (S.B. NO. 111449)
ROBERT L. FLEISCHMAN (S.B. NO. 80045)
BRANDON C. CHAVES (S.B. No. 225595)
150 Spear Street, Suite 1600
San Francisco, CA 94105
Telephone Number: (415) 834-3800
Facsimile Number: (415) 834-1044

Attorneys for Plaintiff
JULIE C. CHAO

ENDORSED FILED
SAN MATEO COUNTY

DEC 05 2007

Clerk of the Superior Court
By R. Montgomery
DEPUTY CLERK

SUPERIOR COURT OF THE STATE OF CALIFORNIA
IN AND FOR THE COUNTY OF SAN MATEO

JULIE C. CHAO, an individual, and in
her capacity as Trustee of CHAO
LIVING TRUST,

Plaintiff,

vs.

PSM HOLDING CORP., a corporation,
and DOES 1-20, inclusive,

Defendants.

Case No.

CIV 4 6 8 2 6 7

COMPLAINT FOR DECLARATORY
RELIEF

UNLIMITED CIVIL CASE

Plaintiff, Julie C. Chao, alleges the following:

THE PARTIES

1. Plaintiff, JULIE C. CHAO, (hereafter "Julie Chao" or "Plaintiff") is an individual residing in the County of San Mateo, State of California.

2. Plaintiff is informed and believes that Defendant PSM Holding Corp., (hereafter "PSM") is a corporation existing under the laws of the State of New York and having its principal place of business in the State of New York.

3. Plaintiff is informed and believes that Defendant PSM is a holding company, which holds all of the stock of other corporations, and is a direct and wholly owned subsidiary of Public Service Mutual Insurance Company, a New York domiciled

1 mutual property and casualty insurer, which is licensed to do business in the State of
2 California as PSM Insurance Company.

3 4. Venue is proper in this County under California Code of Civil
4 Procedure Section 395.5 as San Mateo is the county in which corporate Defendant PSM's
5 obligations or liabilities to Plaintiff arose and the county in which the transactions which give
6 rise to the controversy between the parties were to be performed.

7 5. Plaintiff does not know the true names and capacities of the defendants
8 sued herein as DOES 1 through 20, inclusive, and therefore sue those defendants by such
9 fictitious names. Plaintiff is informed and believes and thereon alleges that defendants Does
10 1 through 20, inclusive, are in some manner responsible for the events and happenings
11 described in this complaint.

12 NATURE OF THE ACTION

13 6. This action arises out of the execution of an alleged Agreement on the
14 part of National Farm Financial Corporation (hereinafter "National") and Larry Chao to sell
15 all of the outstanding and issued shares of stock of National's wholly owned subsidiary
16 Business Alliance Insurance Company (hereafter "BAIC") to Defendant PSM pursuant to a
17 Stock Purchase Agreement dated September 16, 2005 ("Stock Purchase Agreement" or
18 "SPA").

19 7. National is a corporation existing under the laws of the State of
20 California, with its principal place of business at 900 Cherry Avenue, Suite 218, San Bruno,
21 California, 94066.

22 8. At all relevant times, the CHAO Living Trust owned all of the issued
23 and outstanding shares of National.

24 9. At all relevant times, Plaintiff, Julie Chao, was and is a Co-Trustee of
25 the CHAO Living Trust. As Trustee of the CHAO Living Trust, Julie Chao has the right
26 power and authority to institute actions and proceedings on behalf of the Trust Estate and to
27 manage and preserve the assets of the Trust Estate.

4

1 10. At all relevant times, Plaintiff, Julie Chao, was the wife of Larry Chao
2 who was and is an Officer and member of the Board of Directors of National.

3 11. Plaintiff, Julie Chao, was and is the beneficial owner of 50% of all
4 assets in the CHAO Living Trust, including, without limitation the outstanding and issued
5 shares of National.

6 **GENERAL ALLEGATIONS**

7 12. Plaintiff is informed and believes that Larry Chao, during the course of
8 2005, entered into negotiations on behalf of National to sell BAIC to a purchaser for a fair
9 value.

10 13. On or about December 22, 2005, Defendant PSM initiated an action
11 against National, BAIC and Larry Chao for breach of contract, specific performance, fraud
12 and negligent misrepresentation in the United States District Court for the Central District of
13 California (hereafter "the Lawsuit"), alleging, in substance, that National through Larry Chao
14 had entered into an agreement (the "SPA") to sell all of the shares of BAIC to Defendant
15 PSM but that National, BAIC and Larry Chao breached said agreement with resultant
16 damages to PSM. The Lawsuit also contained causes of action alleging that National, BAIC
17 and Larry Chao had engaged in fraud and misrepresentation.

18 14. After a trial, the jury returned a verdict in favor of PSM and against
19 National, BAIC and Larry Chao for breach of contract in the amount of \$40,000,000.00,
20 against National, BAIC and Larry Chao in the amount of \$1,000,000.00 for "intentional
21 misrepresentation" in the amount of \$1,000,000.00 for "false promise" and in the amount of
22 \$1,000,000.00 for "negligent misrepresentation" for a total cumulative damage award against
23 all the defendants, jointly and severally, in that Lawsuit of \$43,000,000.

24 15. Plaintiff was not a party to the Lawsuit.

25 16. Plaintiff did not agree to sell BAIC to PSM under the SPA, did not
26 execute the SPA and did not give her consent to Larry Chao to execute the same.
27
28

5

1 17. Plaintiff is informed and believes that Defendant PSM knew that the
2 consent and approval of the Chao Living Trust and Plaintiff Julie Chao as its Trustee was
3 necessary for the sale of BAIC by National to become effective.

4 18. Plaintiff is informed and believes that Defendant PSM knew that the
5 consent and approval of Julie Chao, as an individual, was necessary for the sale of BAIC by
6 National to become effective.

7 19. Plaintiff is informed and believes that the damages awarded by the jury
8 against National, Larry Chao and BAIC are so substantial that they cannot be satisfied by
9 National's assets alone and that the assets of the Chao Living Trust (aside from the
10 ownership of the voting securities of National) are imperiled by the damage award.

11 20. PSM has threatened to invade the Chao Living Trust and attach the
12 assets therein by executing on the judgment in the Lawsuit if the judgment becomes final.

13 21. Plaintiff is informed and believes that the damages awarded by the jury
14 against National, Larry Chao, and BAIC are so substantial that they cannot be satisfied by
15 National's assets alone and that Julie Chao's community interest in her marital estate with
16 Larry Chao is imperiled by the damage award.

17 22. PSM has threatened to seize the assets which comprise Plaintiff Julie
18 Chao's community interest in her marital estate by executing on the judgment in the Lawsuit
19 if the judgment becomes final.

20 23. The alleged agreement to sell the shares of BAIC to Defendant PSM,
21 which were owned by National, which was in turned owned by the Chao Living Trust and
22 which shares constituted the community property of Larry Chao and Plaintiff Julie Chao, was
23 entered into without the knowledge, approval or consent of Plaintiff Julie Chao, the Co-
24 Trustee of the Chao Living Trust and the wife of Larry Chao.

25 24. Throughout the Lawsuit Defendant PSM contended that the SPA had
26 been validly entered between National, Larry Chao and BAIC as sellers and Defendant PSM
27 as Buyer and that the SPA was enforceable in accordance with its terms.
28

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1 25. Throughout the Lawsuit Defendant PSM contended that the fact that
2 Plaintiff Julie Chao did not agree to the SPA (although the SPA referred to her and called for
3 her signature) merely meant that her individual obligations under the contract, including her
4 obligation to indemnify PSM, were not enforceable under the SPA.

5 26. Even though the SPA limits the maximum amount of damages PSM
6 can obtain for breach, Plaintiff is informed and believes that Defendant PSM intends to
7 attempt to execute on the \$40 million judgment, an amount far in excess of the limitation in
8 the SPA. Such an attempt would cause immediate harm to Plaintiff's valuable interests in
9 her community interests and the assets of the Trust Estate which would become greatly
10 impaired if not totally destroyed.

11 27. The SPA contained an Indemnification Provision which provided in
12 part:

13 "The maximum aggregate liability of the Stockholder [National] and the
14 Chaos for indemnification obligations under this Section [from and against ...all
15 losses, costs, damages, liabilities ...incurred by the Purchaser ...arising out of ... any
16 misrepresentation or breach of or default under any of the representations, warranties,
17 covenants or agreements given or made in this Agreement] shall equal 50% of the
18 Purchase Price; provided, however, 20% of such amount shall be exclusively for
19 indemnification obligations with respect to Adverse Development ...".

20 28. Defendant PSM agreed under the SPA to indemnify and hold Julie
21 Chao harmless "from and against any and all ... losses, costs, damages, liabilities and
22 expenses including, without limitation, reasonable legal fees ... arising out of ... any breach
23 of or default under any of the representations, warranties, covenants and agreements made by
24 PSM in this Agreement ...".

25 29. Plaintiff is informed and believes that Defendant PSM has breached
26 several of the covenants and agreements it made in the SPA, including, without limitation,
27 the agreement to a limitation on damages, the covenant to pay a purchase price for the shares
28

1 of BAIC, the covenant to cooperate and the covenant of good faith and fair dealing, all to the
2 damage of Plaintiff Julie Chao.

3 30. Plaintiff is informed and believes that Defendant PSM does not believe
4 its damages for breach of contract are limited to the amount set forth in the SPA and that it
5 intends to pursue the community assets of Plaintiff Julie Chao and the Trust Estate of the
6 Chao Living Trust in an attempt to satisfy the Judgment in the Lawsuit.

7 **FIRST CAUSE OF ACTION**

8 **(Declaratory Relief)**

9 31. The allegations of Paragraphs 1 through 30 are incorporated by this
10 reference.

11 32. An actual controversy has arisen and now exists between Plaintiff and
12 Defendant PSM concerning their respective rights and duties in that Plaintiff contends that
13 Defendant PSM has no right to invade the CHAO Living Trust or her community interest as
14 a result of the Judgment in the Lawsuit. Plaintiff has a reasonable apprehension that PSM
15 will attempt to execute on the Judgment and attempt to do so.

16 33. The very contract which PSM claims National and Larry Chao
17 breached limited damages for such breach to an amount substantially less than the amount
18 the jury awarded as damages for breach.

19 34. The parties require a judicial determination of their respective rights so
20 that they will know whether Defendant PSM has any right to attempt to recover against the
21 Trust Estate of the Chao Living Trust or the community interests of Plaintiff Julie Chao.

22 35. Plaintiff has no adequate or speedy remedy to resolve the parties'
23 dispute other than by a declaratory judgment from this court. Because of the urgency and
24 importance of the issues presented by the parties dispute, it is necessary and appropriate for
25 the court to resolve this dispute by issuing a judicial declaration determining the respective
26 rights and obligations of the parties with respect to whether Defendant PSM has the right to
27 invade the Chao Living Trust's estate and the community interest of Plaintiff Julie Chao in
28 her marital property.

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2 damage of Plaintiff Julie Chao.

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26 rights and obligations of the parties with respect to whether Defendant PSM has the right to
27 invade the Chao Living Trust's estate and the community interest of Plaintiff Julie Chao in
28 her marital property.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment against the defendant as follows:

1. For a declaration that the community assets of Plaintiff and the Trust Estate of the Chao Living Trust can not be reached by Defendant PSM if it executes on a Judgment arising out of its Lawsuit suit against National, BAIC and Larry Chao;
2. For a declaration that any damages PSM can recover from Plaintiff are limited by provisions limiting the "maximum aggregate liability" of the "Stockholder and the Chaos" under the Stock Purchase Agreement to the amount specified in the Stock Purchase Agreement;
3. For a declaration that Julie Chao is entitled to recover from Defendant PSM any losses she has sustained and costs and expenses she has incurred pursuant to Defendant PSM's agreement to indemnify her in the Stock Purchase Agreement;
4. For attorneys fees;
5. For costs of the suit herein; and
6. For such other and further relief, whether equitable or otherwise as the Court deems proper.

Dated: December 5, 2007

FRIEDMAN DUMAS & SPRINGWATER LLP

By:



Cecily A. Dumas
Attorneys for Plaintiff
JULIE C. CHAO